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BEFORE THE
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POSTAL RATE AND FEE CHANGES
OFFICE OF THE CLERK

POSTAL RATE AND FEE CHANGES, 1997

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DOCKET NO. R97-1

INITIAL BRIEF OF THE CLASSROOM PUBLISHERS ASSOCIATION

The Classroom Publishers Association (CPA) is the principal representative of the classroom publishing industry in the U.S. mailing magazines, books and other teaching aids for use in the classrooms and Sunday Schools of America. Our best estimates are that CPA represents about 80 percent of the volume of classroom periodicals mailed under the classroom subclass in periodical mail. CPA's members publish approximately 70 classroom magazines and periodicals and more than 20 million magazines are mailed bi-weekly for students using the classroom periodicals postal rate.

Introduction

On July 10, 1997, the United States Postal Service, acting under sections 3622 and 3623 of the Postal Reorganization Act (39 USC §§3622, 3623) filed a Request with the Postal Rate Commission for a recommended decision on proposed changes in domestic postage rates and fees and in certain mail classifications, resulting in this Docket, R97-1. These recommended postal rates, if adopted, would result in an additional five to eight percent (5-8%) increase on classroom

publications, in addition to the recently imposed two-step increase of thirty-five percent (35%) resulting from the reopened docket in MC96-2.

It is important to note that the Commission recommended the Postal Service's proposed nonprofit rates in MC96-2, but declined to recommend the proposed classroom rates, PRC Op. Docket No. MC96-2 at 38-42. The Commission maintained that the record did not support a finding that classroom revenues would meet or exceed attributable costs, as required by statute and issued an order (No. 1125 - July 19, 1996) directing the Postal Service to provide further data and information on classroom publications. Docket No. MC96-2 was reopened by the Commission. The Postal Service proposed a short-term solution of applying prior and post classification reform nonprofit rates to classroom mail forming a "hybrid" step 5 rate schedule for classroom mail and step 6 classroom rate identical to nonprofit rates. This approach was adopted and resulted in the aforementioned two-step increase of thirty-five percent (35%) in classroom postal rates.

I. The Legislative Intent of Congress to Provide Classroom Publications with a Preferred Postal Rate is Being Eliminated by the Several Rate Increases on Classroom Publications Over the Past Few Years.

A review of the legislative history behind the current classroom rate in periodical mail reveals that since 1947, there has been a long and continuous recognition by Congress of the importance of classroom publications to the education of America's school children and the need to establish postal rates for such materials at a level low enough to guarantee the continued ability of recipients to receive such materials.

In 1951, Congress considered and passed postal rate legislation, H.R.2982, increasing postal rates, but classroom and religious instruction publications were exempted from rate increases. The Senate passed S.1046 and agreed with the House to exempt classroom publications from any rate increase.

In 1958, Congress once again considered postal rate legislation, and specifically the subject of classroom publications. While regular second class rates were further increased, the classroom rate remained the same.

H.R.7927 which became P.L. 87-873 (October 11, 1962) involved a major revision of the postal rates and established the statutory "classroom rate" for classroom periodicals at sixty percent (60%) of the regular second-class rate.

In 1970, Congress passed the Postal Reorganization Act (P.L. 91-375). While generally transferring from Congress to the Postal Service the authority to set postal rates, Congress made sure that the Postal Service did not take away preferential treatment for classroom publications. As a result of this legislation, the present 39 USC §3626(a)(1) was enacted, reading in pertinent part as follows:

The revenues received from rates for mail under former section 4358 (classroom publications). . .shall not, on and after the tenth year following the effective date of the first rate decision applicable to the class or kind, exceed the direct and indirect postal costs attributable to mail of such class or kind (excluding all other costs of the Postal Service).

This section once again reaffirmed Congress' long-standing policy that classroom publications and their recipients be protected from inordinate postal rate increases. This Congressional policy is based upon the legislature's recognition of the strong public benefits derived from classroom publications and the need to ensure that postal rates do not prevent students across the nation from receiving such benefits.

Under this section, classroom publications should pay no more than their attributable costs which were then considered to be about fifty percent (50%) of overall costs associated with such publications.

It was originally thought with Postal Reorganization that classroom rates would be stable and there would be protection from inordinate postal rate increases. However, the opposite has been true in the 90s. Ever increasing attributable costs ascribed, whether properly or not, to classroom publications have closed the gap with regular periodical mail so that the differential is only about six percent (6%) and closing.

This was not what Congress intended and has created a very serious problem affecting the viability of the classroom publishing industry where these low-cost publications cannot absorb endless rate increases.

**II. The Attributable Costs For Classroom Publications
Are Determined By An Inadequate Sample (I.O.C.S.) and the
MODS Changes Have Introduced Further Problems (See Cohen, Stralberg, et al.).**

Considerable effort has been made by the Postal Service to improve the revenue, piece and weight statistics for classroom publications by increased computerization of post offices across the U.S.

But, the problem lies with the minimal sampling of classroom publications to arrive at the cost data. The I.O.C.S. costing system that the Postal Service uses system-wide to gather cost data results in a tiny and erratic sample for classroom periodicals. This results in wide fluctuation in attributable costs for classroom periodicals over the last several years.

In MC96-2, postal witness Degen (USPS-CT-2 at 6) testified that the small size of classroom mail makes it a volatile subclass in terms of postal data collection systems, and that we can expect some volatility in cost estimates that will complicate the rate-making process.

This prediction has come true. The FY1996 estimate appears to be overstated, presumably because of random variation in the statistical estimates.

Only 50 tallies out of 63 million classroom pieces were used to establish classroom costs in 1995. This is out of an annual mailstream of 180 billion pieces of mail. This is clearly inadequate, but it is understood that if the Postal Service would increase the classroom sample substantially, it would be cost prohibitive.

The Postal Service in this case has adopted a MODS cost system to supplement the existing I.O.C.S. system. According to postal witness Alexandrovich (USPS-T-5), this would result in attributable costs for classroom publications rising from 23.50 cents to 25.3 cents by rolling forward and adjusting FY 1996 costs to the test year. This further exacerbates the problem.

The Postal Service through its witness Degen has introduced a new method (MODS) of assigning processing costs to subclasses that would pile still greater cost responsibility on the Periodical subclasses (such as classroom) on the basis of testable (but untested) assumptions about cost incurrence. Witness Rita Cohen (MPA-T-2), William Shew (DJ-T-1), and Halstein Stralberg (TW-T-1) have offered extensive testimony in this proceeding demonstrating that the deficiencies in witness Degen's analysis require that it be either corrected or rejected.

Degen assigns an excessive share of "not handling" costs (28.3% of total mail processing costs) to mail that receives most of its handling at platforms and opening units, where productivity is not monitored, and where employees tend to be sent or to gravitate when there are no other assignments -- i.e., the mail that is most highly presorted and receives the least automated processing. This is particularly detrimental to classroom mail.

Another concern we have, along with many other intervenors in this case, is the influx of "automation refugees" -- workers who remain on the Postal Service payroll despite having been rendered surplus by automation of other mail processing operations.

We have suggested that a rational solution to the problem would be to go back to the original mandate of Congress in 1962 which established the classroom postal rate in second class mail as 60 percent (60%) of the rate charged for regular second class mail (*See* former Title 39, USC §4358).

The increases in postal rates needed to bring classroom publications up to attributable costs, as calculated by the Postal Service have already resulted in about a thirty-five percent rate increase on most titles in the past year. This certainly constitutes “rate shock.” Absorbing this increase is a serious problem because postage constitutes a large portion of the cost of these low-priced publications. Unfortunately, this extremely competitive and low-profit segment of the publishing industry will see further erosion as the result of this very large postal increase. Many marginally profitable titles may be dropped and others consolidated into one publication reducing the quality for a specific grade level.

III. Combining Classroom Publications With Non-Profit Publications in Periodical Mail Introduces Structural and Legal Problems and May be Counterproductive.

The Postal Service has long wanted to merge classroom periodicals into the non-profit periodicals subclass to eliminate the costing problem that we discussed above. We have resisted this over the years for several very good reasons.

From 1951 to the present, classroom publications have maintained a separate subclass under second class mail (now periodical mail). The one time we were lumped into the non-profit category (R90-1), the vast majority of classroom titles received an egregious 55 percent rate increase.

The rationale for profit-making classroom publications is inherently different from the rationale for non-profit publications as determined by Congress in 1951 when they granted the classroom rate.

There doesn't seem to be any logic for forcing the two classes together, except for using the joint sampling data as an expedient financial cost measurement tool until a better and more accurate sampling system or approach can be implemented.

Classroom publications are usually bundled, palletized or sacked to five digit zip codes or carrier routes going directly to their destinations. Most classroom publishers exercise all the work-sharing opportunities possible for efficient processing through the mail stream, including presorted mail, palletization, plant loading and shipping directly to destination mail centers for bulk delivery by USPS. This extensive mail processing results in less in-office handling of the mail by the Postal Service and saves the Postal Service considerable money and differentiates it from the typical non-profit periodical mailing.

Further, being merged into non-profit mail may have counterproductive rate effects. Note in this proceeding the vigorous protests of the Alliance of Nonprofit Mailers over the 15-18 percent rate increase being proposed by the Postal Service for Non-Profit Standard Mail while Commercial Standard Mail receives only a 4.5% percent rate boost.

It is our view that there has to be a better solution than just merging classroom and non-profit mail into one periodical subclass.

**IV. The Initial Brief (First Section) of the Consumer Advocate
Raises Legitimate Issues Concerning the Need for the Subject
Postal Rate Increase Asked for by the Postal Service. Any Rate
Increase Should Be Delayed, If Implemented At All, Until January 1999.**

Under the Postal Reorganization Act rates are to be established so that the Postal Service operates on a break-even basis. The rate level must be established so that revenues will be as near as practicable to the expenses.

Based on the figures available at this time, it appears the Postal service, in all probability, will earn a significant profit during the test year.

In these circumstances, the break-even policies of Title 39 require that the Commission make a recommended decision that there must be no overall change in the rate level in this proceeding.

The Postal Service is to be commended for its excellent results and financial management up to this point in time. Unfortunately, it does create the anomaly of requesting a rate increase when it is not needed or statutorily appropriate.

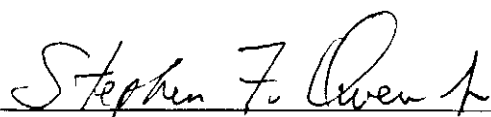
If the Commission should see fit to recommend a postal rate increase in this proceeding, it should be delayed until at least January of 1999.

Conclusion

Classroom publications certainly don't need another rate increase after the recent 35 percent rate boost just experienced. The revenue figures of the Postal Service to date may justify waiving any rate increase on classroom publications based on the argument above.

But, a solution must still be found to the attributable cost problems of classroom publications. In the long run, it may make sense to go to the Congressional solution of fixing classroom rates as a percentage of regular periodical mail in recognition of the educational value of these low-cost publications and to preserve their continuing availability and usage by America's school children.

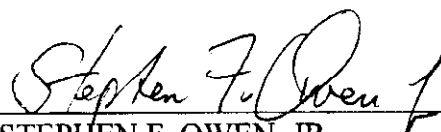
Respectfully submitted,
CLASSROOM PUBLISHERS ASSOCIATION


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CERTIFICATE OF SERVICE

I hereby certify that I have on this date served the foregoing document upon all interested participants of record in this proceeding in accordance with Section 12 of the Commission's Rules of Practice.


STEPHEN F. OWEN, JR.

April 1, 1998